USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - public distribution

Date: 1/20/2006

GAIN Report Number: FR6005

France

Oilseeds and Products

French Biofuel Production Booms

2005

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Report Highlights:
France has adopted more ambitious objectives than the European Commission's for biofuel incorporation into conventional fuels. As such, they have offered biofuel producers financial incentives for production of 517,500 MT in 2005 up to 3.2 million MT in 2008. French rapeseed production is expected to increase substantially and by-product rape meal will partially replace imported soybean meal in feed rations. France may need to diversify some sources of biofuel products due to production constraints, which may lead to export opportunities for low-cost producers of suitable oilseeds and products.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Paris [FR1]
[FR]

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GOF Policy on Biofuels

The Government of France (GOF) has offered financial incentives for biofuel production since 1993 following implementation of the first reformed Common Agricultural Policy. Each year, the Government announces a quota for biofuels that will qualify for a reduced domestic tax. For 2005, the GOF established a 517,500 MT (417,000 for biodiesel, 100,000 for bioethanol) quota for tax relief, however, total tax relief claims, including bioethanol, ETBE and VOME, only reached 504,000 MT (up from 467,500 MT in 2004).

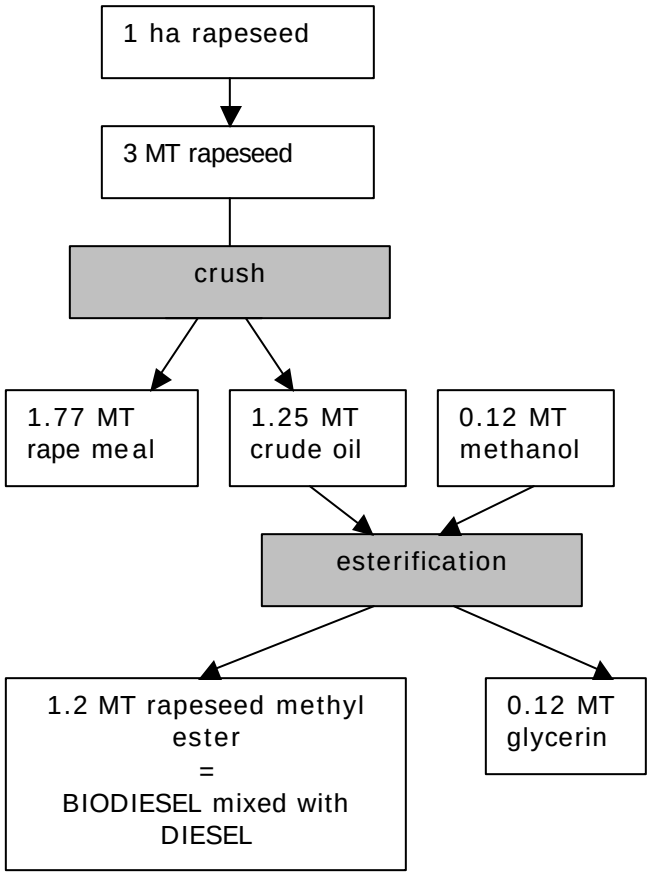
Current French Biofuel Production and Consumption

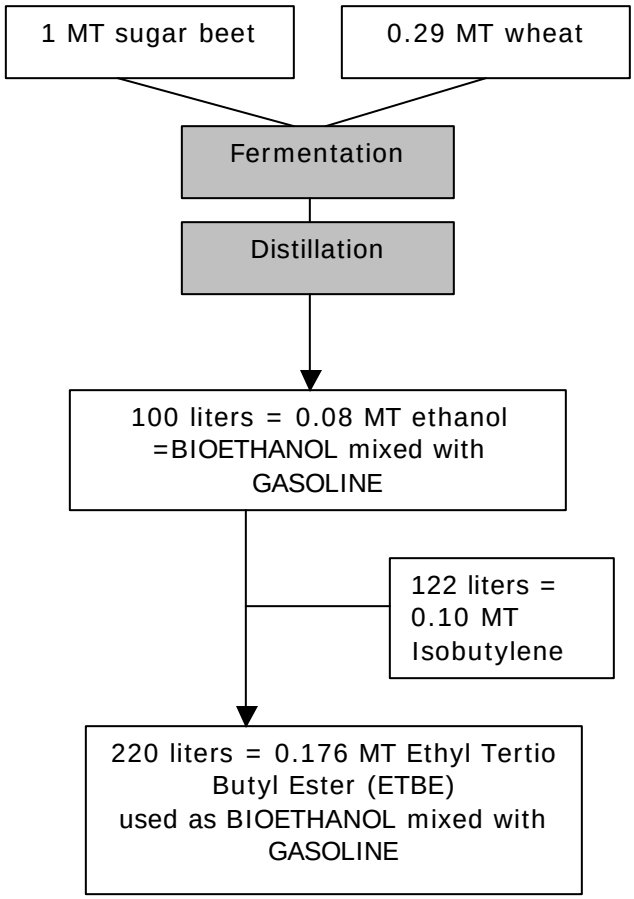
France currently produces and consumes the following biofuels:

- Biodiesel: Vegetable Oil Methyl Ester (VOME) is derived from rape oil and sunflowerseed oil. VOME is mixed with diesel at the rate of 5 percent for general use and 30 percent in captive fleets for public transportation.

- Bioethanol: ethanol is derived from sugarbeets or wheat, and Ethyl Tertio Butyl Ester (ETBE) is derived from ethanol. Ethanol and ETBE are incorporated into gasoline at a maximum rate of 15 percent.

The inputs and processes used to produce biofuels in France are the following:





Recent Changes in French Biofuel Production Policy

The French Government recently announced that, in order to reach the EU Commission (EC) objectives of biofuel incorporation into conventional fuels set in the directive 2003/30/CE, France would increase the quota for tax relief to 880,000 MT by 2007 (see FR5002 and FR5018) and accelerate biodiesel incorporation into total fuel consumption from the current 5.0 percent to 5.75 percent by 2008 (two years earlier than required), 7 percent by 2010, and 10 percent by 2015.

GOF quotas for biofuels	Vegetable Oil Methyl Ester (VOME) used as biodiesel (MT)	Ethanol and Ethyl Tertio Butyl Ether (ETBE) used as bioethanol (MT)		Total (MT)
2005 approved quota	417,500	100,000		517,500
Additional quota announced in September 2004	560,000	320,000		880,000
Additional quota announced in September 2005	1,335,000	465,000		1,800,000
		380,000 ethanol	85,000 ETBE	
Total projected in 2008	2,312,500	885,000		3,197,500

These volumes were based on projected French consumption of 35 million MT of diesel and 10 million MT gasoline in 2008.

The French government, through its support of biofuel production is also providing financial support to oilseed producers. The government measures stimulate expanding demand for oilseed products. For example, French farmers are allowed to incorporate their own rape oil into their on-farm fuel for the first time in 2006. The Government is wary, however, that farmers' use of vegetable oil may represent a major revenue loss from reduced taxes. Further, the environmental impacts of this use are unknown.

Non-agricultural French industries, including refiners and automobile manufacturers, are finding their use of biofuels in light of high oil prices. The French oil company TotalFinaElf uses significant amounts of domestic biofuels as a component in its refineries, and the French car industry can mix biofuel into conventional fuel at low rates because it doesn't require technical changes in traditional engines. Ford Motor Company is planning to sell cars in the French market that can run on a mix of 85% ethanol.

Biofuel Taxes

In 2005, biodiesel and bioethanol fuels were taxed, relative to diesel and gasoline, as follows:

Product	2005 Tax (in euros per hectoliter)	2005 Tax Cut (in euros per hectoliter)	2005 Final Tax (in euros per hectoliter)
Diesel	41.69		41.69
VOME (Biodiesel)	41.69	33	8.69
Gasoline (unleaded)	58.92		58.92

Bioethanol	58.92	37	21.92
ETBE (used as bioethanol)	58.92	38	20.92

Because the public cost of supporting biofuel production results in lower tax gains for the GOF budget, the 2006 financial bill increased the tax rate to 33 from 25 euros/hl for biodiesel and to 37 and 38 from 33 euros/hl for bioethanol and ETBE for 2006.

Impact of Growing Biodiesel Production

This report will now focus specifically on biodiesel, which is the biofuel with the strongest development prospects in France and Europe, and the most relevant market opportunities for U.S. exports.

Oilseed Production, Alternative Supplies and Animal Feed

Realistically, France cannot produce the amount of rapeseed necessary to process the quantities of biodiesel to fill the 2008 quota, especially as the food industry also needs rape oil (which is easier to source non-GM than soy). 2.3 million MT of rapeseed methyl ester projected for biodiesel production in 2008 would require 1.6 to 1.9 million ha of planted rapeseed, depending on the yield. According to the French technical institute for oilseed (CETIOM), France's maximum acreage for rapeseed, based on agronomic constraints, is 1.5 to 1.8 million hectares. In 2005, French rapeseed acreage was 1.2 million ha, including 450,000 ha for industrial rapeseed.

Thus, to reach its biofuel objectives in the next few years, France will have to import rapeseed, rape oil or other oil sources to process VOME and/or incorporate other vegetable oils, such as soybean, into biodiesel production. Sunflower oil methyl ester can be used as biodiesel, provided that seeds are from oleic varieties. Oleic sunflower production in France has increased significantly in the past few years (from 12 percent in 2003 to 35 percent projected in 2006), indicating increased interest by the French industry in oleic sunflowerseed varieties. France's need for alternative sources to rapeseed may present a market opportunity for U.S. products. However, if raw materials necessary to process biodiesel are imported from outside of the European Union, the preferential tax system benefiting biofuels may be revised.

The GOF's recent measures, as well as the EU Commission proposal to amend the standards for biodiesel to allow for incorporation of a wider range of vegetable oils could result in a potential market for U.S. soy oil (see E35235). For conditions for importing biodiesel to the EU from the U.S., please see E35101.

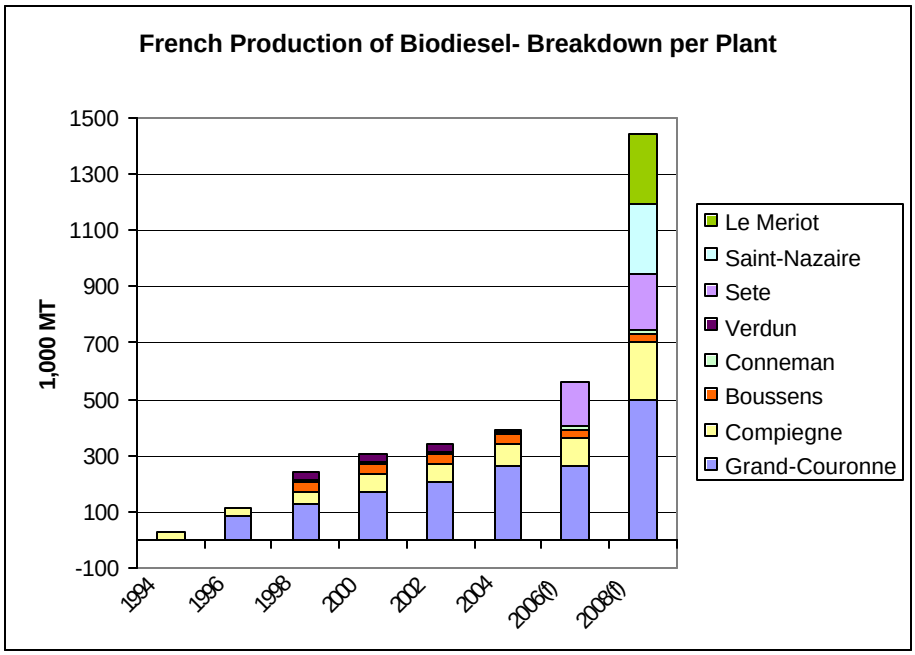
In addition, and as a way to prevent imports from increasing significantly, the GOF is also cautiously exploring other sources for biodiesel than VOME or crude vegetable oil, i.e., Animal Oil Methyl Ester (AOME) and Vegetable Oil Ethyl Ester (VOEE).

Impact on Animal Feed Production

As a natural consequence of increased rapeseed production, French supplies of rape meal will increase significantly as well. As was the case in 2004/05 (see E35118), rapeseed meal is expected to further replace soy meal in feed rations, especially for dairy cattle (see FR5046).

Industrial Developments Projects

Assuming continuing high oil prices and reliable supply chains for biofuel inputs, French companies are expected to respond to the Government's incentives by expanding current plant capacity and building new plants for biodiesel production. As shown below, production is projected to climb from about 400,000 MT in 2004, principally in the Grand-Couronne plant, to more than three times that amount in 2008 (1.4 million MT).

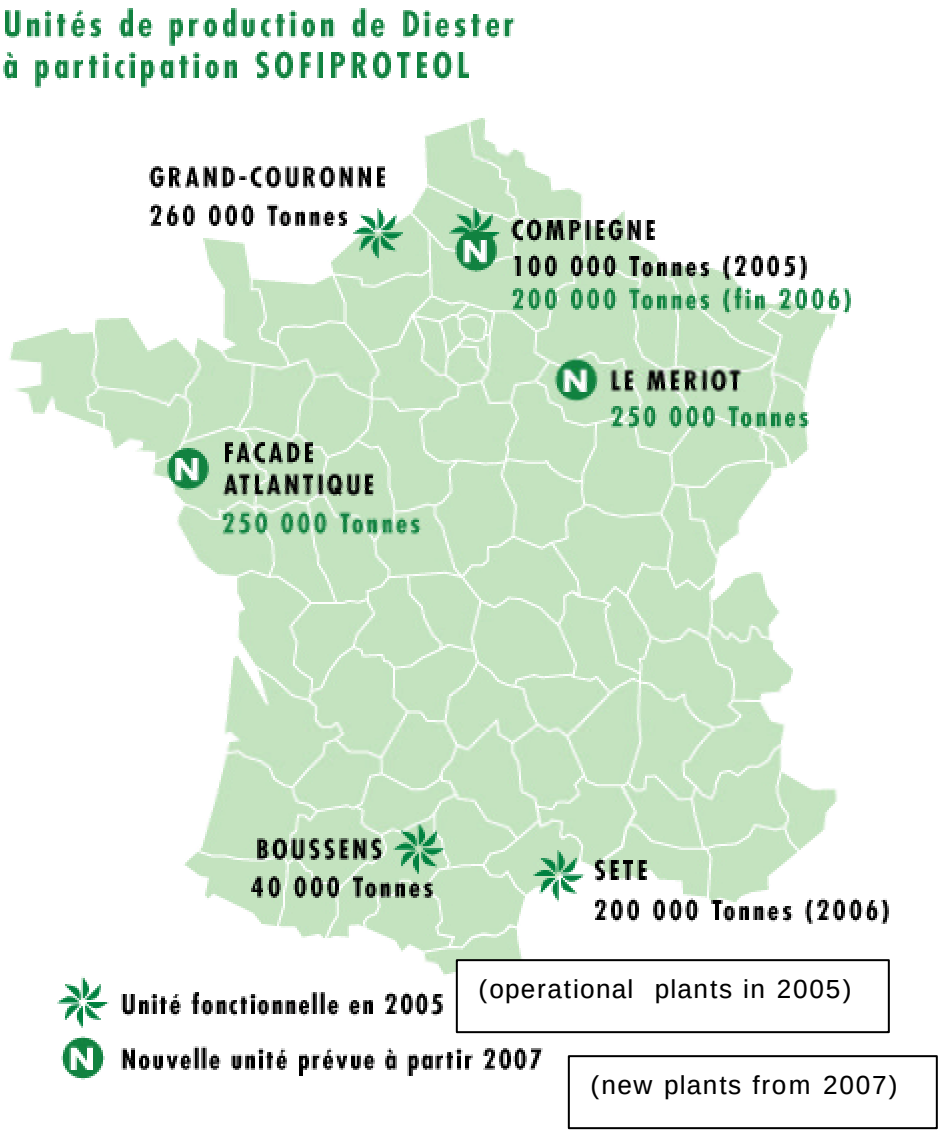


Diester Industrie, a large farmer-owned biodiesel company, for example, is planning to double the Compiegne and Grand-Couronne production capacity and to build 3 new plants in Sete, Saint-Nazaire (Façade Atlantique) and Le Meriot by 2008.

Location	2004 (MT)	2005-2006 (MT)	2007-2008 (MT)
Grand-Couronne	260	260	500
Compiegne	83.5	100	200
Boussens	33	33	33
Sete	0	160	200
Saint –Nazaire (Façade Atlantique)	0	0	250
Le Meriot	0	0	250
Total	376.5	553	1,433

Other projects are expected to be announced in the future.

The following map, available on the http://www.prolea.com website, indicates the locations of the Diester Industries biodiesel plants.



The new plant at Le Meriot is expected to cost as much as 95 million euros, including 70 million euros for a rapeseed crushing and refining facility, and 25 million euros for an esterification plant (to process methyl ester from rape oil). The French oilseed industry chose this location due to its proximity to three major rapeseed producing regions (Eastern France, Burgundy and the Parisian Basin) and its location on the Seine River.

According to the industry, the new plant in Saint-Nazaire / Facade Atlantique (refinery, esterification and storage facilities) will cost 35 million euros and be operational in early 2007. This plant will be supplied with rape oil and sunflower oil by a Cargill crushing plant, which is already based in the same region.